

March 23, 2000

The Honorable Michael M. Reyna
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Reyna:

This represents the Office of Inspector General's (OIG) final report on the Year 2000 (Y2k) review. Our work on this project spanned a period covering fiscal years 1998-2000 and involved reviewing the Farm Credit Administration (FCA or Agency) internal preparations for the millenium change as well our Agency's oversight of the Farm Credit System's (FCS or System) Y2k efforts. FCA Senior Examiner Ryan Schumacher completed the review of the Agency's internal efforts while Program Analyst David Lewandrowski evaluated the regulatory oversight of FCS efforts. Over the course of the review, we shared our observations with the responsible Agency management as we completed the work. We discussed internal issues with line staff, the Director of Office of Resources Management, and Chief Information Officer. We also discussed external efforts with Office of Examination management. In addition, we consulted with the United States General Accounting Office (GAO) and provided GAO staff with information and documents as requested.

Audit Objectives

The audit plan adopted in September 1998 set up the following objectives:

- Evaluate the Agency's efforts to ensure the Y2k project is implemented consistent with the Board-approved plan to help ensure the continued effective operation of the Agency in the next millenium. The quality of management practices employed in the project will be tested as part of this objective.

- Find out if the Agency's Y2k efforts conform to existing regulatory and governmental guidance and identify whether the project has addressed material Y2k risks. This objective includes evaluating the adequacy and accuracy of reporting to the FCA Board and external parties.
- Evaluate the Agency's efforts to identify the Y2k readiness of FCS institutions and prompt corrective measures when necessary.

Comments are provided below on first and second audit objectives in the "Internal Project Efforts" section and the third objective is addressed in the "Regulatory Oversight of the FCS Year 2000 Readiness" section.

INTERNAL PROJECT EFFORTS

The Agency was adequately prepared for the Y2k challenges as shown by the absence of operational disruptions both through the Y2k weekend and through the February 29 leap year. Our audit work resulted in written and oral feedback to project leaders that was intended to achieve conformance with applicable governmental standards and criteria and we believe contributed to the overall effectiveness of the Agency's Y2k efforts. The Agency submitted sufficient project information to the FCA Board. The Agency also presented reports, as needed, to the United States Senate's Committee on Agriculture, Nutrition and Forestry, the Office of Management and Budget (OMB), and responded to queries from the GAO. We determined the Agency's project reporting was sufficient and materially accurate.

Our audit work created a number of recommendations covering each main aspect of the project (project management, planning, testing, and contingency planning). Management satisfactorily addressed these items. In particular, a significant effort was made in the fourth quarter of calendar 1999 to ensure the Agency's ability to resume operations in the event of a disaster, including any Y2k-related events. While the plan did not need to be invoked, we believe developing the Continuity of Operations Plan (COOP) and attendant documents was a wise investment of resources that should serve the Agency well should an emergency occur in the future. While it is possible that some isolated Y2k problems could still occur, management should be able to handle these events in the normal course of business.

REGULATORY OVERSIGHT OF THE FCS YEAR 2000 READINESS

The FCA provided effective supervision of FCS institutions and the January 1, 2000 and February 29, 2000 dates passed uneventfully in all FCS institutions. This effective supervision included extensive guidance to the System describing FCA's expectations of institutions in preparing for the millenium change, coupled with a dynamic monitoring program that continuously enforced adherence to that guidance. The status of FCS institutions' adherence to Agency guidance was regularly reported to the FCA Board.

We provided verbal and written comments to the Agency throughout the audit on ways to improve their supervision of FCS institutions' Y2k efforts and we believe these comments strengthened the Agency's supervision of this area.

If you have any questions or comments about this information, please let me know.

Sincerely,

Eldon W. Stoehr
Inspector General

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